



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
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February 15, 2012

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **SHERIFF'S DEPARTMENT PROCUREMENT REVIEW**

On August 14, 2007, based on issues noted in our review of procurement in one County department, your Board instructed the Auditor-Controller to develop a risk-based plan to audit procurement operations at all County departments. In accordance with the developed plan, we completed a review of the Sheriff's Department's (Sheriff's or Department) compliance with County procurement policies and procedures. Our review covered areas such as purchasing and payment controls; security over payments using the County's electronic Countywide Accounting and Purchasing System (eCAPS or System); and revolving funds. We also evaluated the Department's controls over medications purchased for inmates, and gift cards used in the Gifts for Guns Program.

Summary of Findings

We noted that the Sheriff's purchases were appropriate and necessary for the Department's operations. However, Sheriff's management needs to ensure the Department complies with County purchasing requirements. The following are examples of areas for improvement:

- The Accounts Payable Section (A/P) needs to ensure it has and reconciles all required documents before issuing payments. We reviewed 85 purchases, and noted that the Department did not have requisitions/purchase orders and/or invoices in the payment files for 20 (24%) purchases, and paid 11 (13%) invoices, totaling \$137,000, without documentation that the goods/services had

been received. In addition, A/P staff did not ensure that the invoice prices, item quantities, and/or payment amounts agreed with the requisitions and/or receiving reports for five (6%) purchases, resulting in potential overpayments, totaling \$400, and underpayments, totaling \$1,000.

Sheriff's Response – Sheriff's indicated that A/P now keeps copies of all procurement documents, and requires staff to document the receipt of goods and retain the original receiving documents. In addition, eCAPS Procurement requires staff to enter receiving data directly into the System, where it is matched with the purchase order/requisition and the invoice before payments are processed.

- Sheriff's procurement staff should comply with agreement and non-agreement purchasing policies. We noted four purchases, totaling \$72,000, that should have been processed through the Internal Services Department (ISD), because they were non-agreement purchases in excess of the Sheriff's delegated purchasing authority. We also noted that the Sheriff's did not obtain the required price quotes for eight (27%) of 30 non-agreement purchases, totaling \$24,700, that were within the Sheriff's delegated authority. In addition, for three (10%) of the 30 agreement purchases reviewed, the Department did not ensure they received the agreement prices, resulting in overpayments totaling \$4,500.

Sheriff's Response – Sheriff's indicated that purchasing staff and managers have attended eCAPS Procurement training, and have been instructed to ensure that they comply with all purchasing and bidding requirements.

- Sheriff's Procurement staff should comply with ISD guidelines for purchasing training services. The Department should also carefully consider the agreement terms and timeframes. We noted that Sheriff's staff did not obtain bids for any of the ten training purchases we reviewed, totaling \$272,000. The Department also paid \$72,600 for training services that were never received, because the contract required the County to pay for the training, even though the Department did not schedule the training within the timeframe required by the agreement.

Sheriff's Response – Sheriff's Fiscal Administration reminded all Departmental units of the County's bidding, sole source purchase, and payment rules. Fiscal Administration will provide additional training on ISD's guidelines for purchasing training services.

- Sheriff's should implement procedures to track service purchases, and obtain Board contracts for services over \$100,000 a year. We noted that the Sheriff's paid at least one vendor over \$100,000 in a year for services, without a Board-approved contract as required by ISD purchasing standards.

Sheriff's Response – Sheriff's Fiscal Administration issued two notices on the \$100,000 service limit, and the Fiscal Administration's General Accounting Unit is now responsible for tracking service purchases to ensure they do not exceed \$100,000 annually.

- Sheriff's management should re-evaluate their revolving fund balances, ensure staff obtain required approvals before making purchases, and improve accountability over the funds. We noted that three of the six revolving funds had excessive balances, and two had insufficient balances. We also noted the Department staff did not obtain the required approvals for eight (80%) of ten revolving fund purchases reviewed. The Sheriff's also did not have revolving fund Statement of Responsibility (SOR) forms for the ten funds and sub-assignments we reviewed.

Sheriff's Response – Sheriff's will re-evaluate their revolving fund balances, and have instructed staff to keep approval documentation in the payment files. In addition, Fiscal Administration's General Accounting Unit now keeps all SOR forms.

- The Pharmacy needs to improve their inventory records for non-narcotic medications. The Pharmacy keeps accurate perpetual inventory records for narcotic medications and takes annual physical inventories for all medications. However, they did not accurately track non-narcotic medications, which account for 97% of the Pharmacy's inventory.

Sheriff's Response – Sheriff's Pharmacy management plans to implement a perpetual inventory system, and is evaluating a system offered by their current vendor.

Although this report is a review of the Sheriff's procurement operations, we recommend that other County departments review these findings, and ensure the necessary controls are in place.

The results of our review and recommendations for corrective action are detailed in Attachment 1.

Review of Report

We discussed the results of our review with Sheriff's management. The Sheriff's attached response (Attachment 2) indicates general agreement with our findings and recommendations.

To help Sheriff's take corrective action as soon as possible, we discussed the results of our review with Sheriff's management/staff as we completed our testwork, and at the

end of our fieldwork. As a result, the Sheriff's response indicates they have already implemented some of the corrective actions.

We thank Sheriff's management and staff for their cooperation and assistance during our review. Please call if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:MP

Attachments

c: William T Fujioka, Chief Executive Officer
Leroy D. Baca, Sheriff
Sheila Williams, Manager, Public Safety Cluster, Chief Executive Officer
Tom Tindall, Director, Internal Services Department
Department Heads
Public Information Office
Audit Committee

SHERIFF'S DEPARTMENT PROCUREMENT REVIEW

Background and Scope

The Sheriff's Department (Sheriff's or Department) delegates responsibility for purchasing to the Department's operating units. The Sheriff's Fiscal Year (FY) 2011-12 services and supplies budget is approximately \$429 million.

We reviewed the Sheriff's procurement and revolving fund practices for compliance with County policies and procedures. Our review included interviewing Sheriff's personnel, evaluating purchasing, payment, revolving fund, pharmacy, and gift card controls; and reviewing a sample of purchases.

Each Departmental unit is responsible for obtaining bids, ordering services and supplies, reviewing and approving purchase requisitions and invoices, receiving supplies, and compiling purchase documentation. The Sheriff's Accounts Payable Section (A/P) reviews the documents and processes payments to vendors for all units' purchases.

General Purchasing and Payment Controls

County Fiscal Manual (CFM) Sections 4.5.2 and 5.2.4 require departments to perform a three-way match of requisition/purchase orders, receiving reports, and invoices before paying vendors, and to mark invoices "paid" to prevent duplicate payments. This ensures payments are only made for goods that were actually ordered and received, and that the correct price is paid. We reviewed 85 purchases made over an 11-month period, totaling approximately \$3 million, and noted the following:

- **Purchase Documentation** – A/P did not have requisitions, purchase orders, and/or invoices in the payment files for 19 (22%) purchases, totaling approximately \$908,000. A/P needs to ensure that these items are included in the payment files, and reviewed before making payments.
- **Goods/services Received** – The Sheriff's did not have packing slips or other documentation that the goods/services were received for 11 (13%) purchases, totaling approximately \$137,000. Staff should document that they have received goods or services before paying vendors.
- **Invoice Processing** – As previously noted, the Sheriff's paid vendors without requisitions, packing slips, or invoices, which indicates that the three-way match is not always being performed. We also noted that A/P staff did not ensure that the prices, item quantities, and/or payment amounts agreed with the requisitions and/or receiving reports for five (6%) purchases, totaling \$50,700. This resulted in potential overpayments totaling \$400, and underpayments totaling \$1,000. In addition, the Sheriff's did not mark 16 (19%) invoices "paid". Sheriff's

management should ensure that staff match requisitions/purchase orders, receiving reports, and invoices before paying vendors, and mark invoices "paid" to prevent duplicate payments.

Recommendations

Sheriff's management ensure:

- 1. Accounts Payable maintains requisitions/purchases orders, packing slips, and invoices with the payment vouchers.**
- 2. Staff document that goods/services have been received before paying vendors.**
- 3. Staff match requisitions/purchase orders, packing slips, and invoices before paying vendors, and mark invoices "paid".**
- 4. Staff investigate the exceptions identified, and recover overpayments and/or pay the underpayments, if appropriate.**

Non-Agreement and Agreement Purchases

The Internal Services Department (ISD) establishes agreements with vendors for commonly purchased items. Departments can purchase items covered by ISD agreements without a transaction limit, and are not required to obtain price quotes. However, these agreements cannot be used to purchase other, non-agreement items. ISD also delegates authority to departments to purchase non-agreement items, up to set limits. Departments may be required to obtain price quotes for non-agreement items based on the amount of the purchase.

At the time of our review, ISD had given the Sheriff's delegated authority to purchase non-agreement items under \$5,000. The Sheriff's could make purchases under \$1,500 without price quotes, and was required to obtain three price quotes for non-agreement purchases between \$1,500 and \$5,000, unless the item was only available from one vendor and could not be easily substituted (sole source purchases). Sole source purchases must be accompanied by a detailed justification. For purchases over the Sheriff's \$5,000 delegated authority, ISD obtains price quotes, selects a vendor, sets up a direct purchase order, and orders the item(s) from the vendor. In 1987, the Board delegated authority to department heads to acquire training for County employees, and instructed ISD to develop guidelines for training purchases.

We reviewed the Sheriff's purchases and noted the following:

- **Price Quotes and Sole Source Purchases** – The Sheriff's did not obtain the required price quotes for eight (27%) of the 30 non-agreement purchases reviewed, totaling \$24,700. In addition, the Sheriff's processed three (10%)

purchases as sole source without documented justification, including two that did not qualify as sole source purchases, because the items were available from other vendors. To ensure the Sheriff's receives the best possible prices, staff should obtain the required price quotes, only make sole source purchases that meet established criteria, and justify sole source purchases in sufficient detail.

- **Delegated Purchasing Authority** – We noted that, for four non-agreement purchases, totaling \$72,000, the Sheriff's exceeded their delegated authority by purchasing non-agreement items from agreement vendors. All four purchases should have been submitted to ISD for processing. Sheriff's management should ensure that staff do not make purchases in excess of the Sheriff's delegated purchasing authority, and only use agreements to purchase agreement items.
- **Agreement Pricing** – The Department did not ensure they received the agreement price for three (10%) of the 30 agreement purchases reviewed, resulting in overpayments totaling \$4,500. Sheriff's management should ensure staff review vendor agreements before ordering goods/services to ensure the Department receives the agreement prices.
- **Training Purchases** - The Sheriff's did not comply with ISD's guidelines for any of the ten training purchases reviewed, totaling \$272,000. For example, the Department did not issue an invitation for bids or request for proposals for ergonomics training, totaling \$102,000. As a result, the Department did not ensure they obtained the best possible price.

In addition, the Sheriff's paid \$72,600 for training services that were never received because the contract required a full non-refundable payment, and the Department did not schedule the trainings by the date indicated in the agreement. Management should ensure that staff comply with ISD's guidelines for training purchases, and carefully evaluate training contracts before entering into the agreements.

Recommendations

Sheriff's management ensure staff:

5. **Obtain price quotes as required by County purchasing policies.**
6. **Only make sole source purchases that meet established criteria, and justify sole sources purchases in sufficient detail.**
7. **Review vendor agreements before ordering items to ensure that items are covered by the agreement, and the Department receives the agreement prices.**

8. **Do not make purchases in excess of the Sheriff's delegated authority.**
9. **Comply with ISD guidelines for bidding and purchasing training services.**
10. **Carefully consider and evaluate the terms and conditions of all training contracts before entering into agreements.**

Service Purchase Limit

ISD Purchasing Standards require service vendors who are paid more than \$100,000 a year to have a Board-approved contract. However, we noted that the Sheriff's does not monitor service expenditures to identify vendors who will be paid more than \$100,000 a year. As a result, the Department cannot ensure they obtain Board-approved contracts when required. We noted one instance where the Department paid \$113,000 in one year for concrete paving services without a Board-approved contract.

Recommendation

11. **Sheriff's management develop and implement procedures to track service purchases, and obtain Board-approved contracts for services totaling more than \$100,000 a year.**

eCAPS Security Access

The County's electronic Countywide Accounting and Purchasing system (eCAPS) allows authorized department personnel to initiate and approve vendor payments online. The CFM provides guidelines for assigning eCAPS access to users based upon the types of transaction they are required to process (e.g., general payments, restricted payments, etc.). To reduce the risk of abuse, departments should periodically review employees' eCAPS access for appropriateness.

We noted that the Sheriff's does not periodically review the Department's eCAPS users' access as required. We reviewed the Sheriff's eCAPS user list and noted:

- Thirteen users had the ability to both encumber funds and/or approve payments, and create/modify vendors, which is prohibited by CFM 4.5.10.
- Two users had multiple payment approval levels, which is prohibited by CFM 4.5.5.
- Two users could approve new vendors and update vendor information even though their job duties do not appear to require this role.
- One user could both enter and approve encumbrances, which is prohibited by CFM 4.1.8.

- Four users had restricted payment approval access even though the Department's procedures only authorized two approvers to have this access.

Sheriff's management should modify current eCAPS access as necessary to eliminate roles that are not in compliance with County and Department policies, and periodically review the Department's eCAPS user list to ensure compliance.

Recommendation

12. **Sheriff's management modify current eCAPS access as necessary to eliminate roles that are not in compliance with County and Department policies, and develop procedures to periodically review eCAPS user lists to ensure continued compliance.**

REVOLVING FUNDS AND REVOLVING CASH TRUST FUNDS

A revolving fund is a predetermined amount of money maintained by County departments to use for change funds, petty cash purchases, etc. A revolving cash trust fund (RCTF) is a type of cash fund used to expedite high volume refunds from trust accounts. We reviewed six of the Department's seven revolving funds, including all three RCTFs, with a total combined balance of \$577,050.

Revolving Fund Balance

CFM Sections 1.6.4 and 1.6.6 require each revolving fund's balance to be equal to approximately one month's expenses. In addition, fund custodians must never withhold daily collections to increase a revolving fund's balance, and should reconcile their fund to its assigned amount each day it is used.

We noted that the Sheriff's did not regularly analyze their revolving fund activity to determine the appropriate amount for each fund. Specifically, we reviewed six of the Department's revolving funds, and noted the following:

- Three revolving funds had excessive balances. For example, one fund had a balance of \$67,000, while its monthly expenses never exceeded \$29,000 during the period of our review.
- Two revolving funds were inappropriately replenished by withholding cash receipts instead of depositing them. Based on our review, the balance of these funds may be too low to meet operating needs.
- One revolving fund was not reconciled to its assigned amount.

Maintaining excessive revolving fund balances creates a higher risk of loss, and withholding cash receipts makes it difficult to properly account for the revolving funds. Sheriff's management should analyze the activity of each revolving fund, determine the

appropriate fund amount, and work with the Auditor-Controller's Audit and Accounting Divisions to adjust the fund balances as required. The Department should also ensure staff deposit all cash receipts, and reconcile the funds to their assigned amounts.

Recommendations

Sheriff's management:

- 13. Analyze the activity of each revolving fund, determine the appropriate fund amount, and work with the Auditor-Controller's Audit and Accounting Divisions to adjust the fund balances as required**
- 14. Ensure staff deposit all cash receipts, and reconcile funds to their assigned amounts.**

Combined Revolving Funds

CFM Section 1.6.3 requires departments to maintain each revolving fund separately. CFM Section 1.6.1 allows departments to establish revolving funds to make change for regular collection activities, or to purchase goods and services (petty cash).

We reviewed six revolving funds, and noted that the Sheriff's combined their \$10,000 Sybil Brand and Inmate Reception Center (IRC) RCTFs. The Department indicated that the Sybil Brand RCTF was no longer needed, and they transferred the funds to the IRC to increase IRC's RCTF. The Department should close the Sybil Brand RCTF, and return the funds to the Auditor-Controller's Accounting Division.

We also reviewed ten revolving fund assignments, including five sub-assignments, and noted the Department inappropriately established one sub-assignment for both change and petty cash purchases. Establishing sub-assignments for multiple purposes make it difficult to properly account for each revolving fund.

Recommendations

Sheriff's management:

- 15. Close the Sybil Brand RCTF, and return the funds to the Auditor-Controller's Accounting Division.**
- 16. Ensure sub-assignments are not established for multiple purposes.**

Revolving Fund Purchases

CFM 4.6.1 states that revolving funds may be used where emergencies exist, when prepayment is required, when immediate payment will result in cost savings, or where a purchasing advantage can be achieved. In all other instances, departments should

make the purchases through normal procurement procedures. The Sheriff's has delegated authority to make payments of up to \$2,500 from their expedited claims revolving fund, and up to \$1,000 from their other revolving funds.

CFM Section 4.6.8 also requires departments to have supporting documentation for revolving fund purchases. In addition, CFM Section 4.6.2 requires two approvals for revolving fund purchases over \$100.

We reviewed ten revolving fund transactions, totaling \$17,700, and noted:

- Four (40%) transactions, totaling \$10,700, did not comply with revolving fund purchasing rules. For example, the Sheriff's used revolving funds to pay a vendor for specialty cleaning services, and the vendor did not require prepayment.
- Three (30%) transactions, totaling \$8,200, exceeded the Department's delegated purchasing authority.
- Eight (80%) transactions, totaling \$16,700, did not have the required approvals. In six instances, staff only obtained one approval and/or the approvals were not dated, and in two instances, staff could not provide any documentation that the purchases were approved.

Sheriff's management should ensure that the revolving funds are only used in accordance with County purchasing rules, that staff do not make purchases in excess of the Department's delegated revolving fund purchasing authority, and that staff obtain the required approvals before purchases are made, and maintain approval documentation in the payment files.

Recommendations

Sheriff's management ensure:

- 17. Revolving funds are only used in emergencies, when prepayment is required, when immediate payment will result in cost savings, or where a purchasing advantage can be achieved.**
- 18. Staff do not make purchases in excess of the Department's delegated revolving fund purchasing authority.**
- 19. Staff obtain required approvals before purchases are made, and maintain approval documentation in the payment files.**

Revolving Fund Assignments

CFM Section 1.6.3 states that custodians of all revolving funds, including sub-assignments, must sign a Statement of Responsibility (SOR) form, updated at least annually or whenever fund custodians change. In addition, departments are required maintain their SOR forms centrally, and conduct surprise cash counts quarterly to ensure accountability and control over revolving funds.

We reviewed ten revolving fund assignments, including five sub-assignments, and noted that the Department could not provide a current SOR form for any of the assignments. We also noted that, for seven (70%) of the fund assignments, the Department did not perform surprise cash counts.

To ensure accountability and control over revolving funds, Sheriff's management needs to require revolving fund custodians to sign an annual SOR form that should be maintained centrally. The Department also needs to perform surprise cash counts on a quarterly basis.

Recommendation

- 20. Sheriff's management require revolving fund custodians to sign an annual Statement of Responsibility, maintain the forms centrally, and perform surprise cash counts on a quarterly basis.**

Management Oversight

As indicated above, we noted a number of significant deficiencies in the Department's internal controls over revolving funds, such as excessive revolving fund balances, purchases that did not meet revolving fund purchasing guidelines, ordering goods/services without approvals, etc. It appears these weaknesses may be due to in part to insufficient management oversight and inadequate training for fund custodians.

To maintain proper accountability and security over all revolving fund monies, Sheriff's management should increase the level of management oversight over revolving funds. Management should also provide training on County revolving fund policies and procedures where necessary, and monitor for compliance.

Recommendations

Sheriff's management:

- 21. Increase the level of management oversight over revolving fund purchases, internal controls and recordkeeping.**
- 22. Provide training on County revolving fund policies and procedures where necessary and monitor for compliance.**

PHARMACY OPERATIONS

The Sheriff's Pharmacy section, part of the Medical Services Bureau, purchases and distributes over 1,700 different medications to over 10,000 County inmates at 24 locations. The Pharmacy's FY 2010-11 medication budget was \$15.7 million.

Inventory Recordkeeping and Controls

CFM 5.2.6 requires departments to establish perpetual inventory controls to monitor large inventories and shrinkage.

We noted that, while the Pharmacy kept accurate perpetual inventory records for narcotic medications, the Pharmacy does not keep perpetual inventory records for non-narcotic medications, which account for approximately 97% of their total inventory.

Although the Sheriff's does not have perpetual records for non-narcotic medications, the Pharmacy does conduct an annual physical inventory count, and records non-narcotic medication purchases and the cost of medications issued to the jails and substations. We noted that the Pharmacy's actual ending inventory exceeded their inventory records (prior year's ending inventory, plus new purchases, minus issuances) by approximately \$1.4 million. The discrepancy is due in part to the fact that the Department does not track medication that is returned to inventory, but records the outgoing medication again when it is redistributed or disposed of.

Sheriff's management indicated that implementing a perpetual inventory system might be too expensive. However, to ensure appropriate controls over non-narcotic medications, and reduce the risk of loss, Sheriff's management should evaluate implementing a perpetual inventory system for non-narcotic medications.

If the Sheriff's decides not to implement a perpetual inventory system, the Department needs to develop alternative inventory controls, including accounting for returns and disposals, to ensure that the Pharmacy effectively monitors non-narcotic medications.

Recommendations

23. Sheriff's management evaluate implementing a perpetual inventory system for non-narcotic medications.
24. If the Sheriff's decides not to implement a perpetual inventory system, the Department develop alternative inventory procedures for non-narcotics, including a mechanism to account for returns and disposals.

Requisition Approvals

CFM Section 5.1.2 requires appropriate supervisory approval before ordering services and supplies. We reviewed 15 Pharmacy purchases, and noted four (27%) instances where the Pharmacy could not provide approved requisitions.

Pharmacy staff indicated that they do obtain, but do not always document, approvals. However, not obtaining documentation of approvals could result in unauthorized or unneeded purchases. Pharmacy management should ensure that staff prepare and managers approve requisitions before purchases are made, and keep copies of approved requisitions.

Recommendation

- 25. Sheriff's Pharmacy management ensure that staff prepare and managers approve requisitions before purchases are made, and keep copies of approved requisitions.**

Controls over Gift Cards

Over the 12-month period reviewed, the Sheriff's purchased over \$500,000 in gift cards from local vendors (e.g., Target, Walmart, Vons, etc.) for their "Gifts for Guns" Program (GGP), which allows County residents to anonymously surrender firearms in exchange for gift cards. At the time of our review, 22 Sheriff's stations had collected over 5,000 firearms at GGP events.

Because gift cards are considered cash equivalents, they should be safeguarded in the same manner as cash to prevent theft or misuse. CFM Section 1.1.3 requires departments to segregate duties such as receiving, recording, and distributing the cards. In addition, the Sheriff's Gift Card Policies and Procedures requires periodic reconciliations of the gift card inventory log.

We noted that gift card duties are not adequately separated. One Sheriff's General Accounting employee is responsible for receiving, recording, and distributing gift cards to each station. In addition, we noted staff do not sign and date their gift card inventory reconciliation worksheet.

While we did not note missing gift cards, the Department increases the risk of lost gift cards when the receiving, recording, and distributing functions are not separated, and gift card reconciliations are not signed.

Recommendations

Sheriff's management:

- 26. Ensure the functions of receiving, recording, and distributing gift cards are adequately separated.**

- 27. Ensure that General Accounting Section staff sign and date gift card inventory reconciliations to document their review.**

INTERNAL CONTROL CERTIFICATION PROGRAM

The Auditor-Controller developed the Internal Control Certification Program (ICCP) to assist County departments in evaluating and improving internal controls over fiscal operations. Departments must review and evaluate controls in key fiscal areas, and certify that proper controls are in place, or that action is being taken to correct any deficiencies or weaknesses noted.

Many of the issues we noted in the Sheriff's procurement operations should have been identified when the Sheriff's completed their ICCP. Sheriff's management should ensure that ICCP questionnaires are completed accurately, all internal control weaknesses are identified and an improvement plan is developed to address each weakness.

Recommendation

- 28. Sheriff's management ensure that the ICCP questionnaires are accurately completed, all internal control weaknesses are identified and an improvement plan is developed to address each weakness.**



LEROY D. BACA, SHERIFF

County of Los Angeles
Sheriff's Department Headquarters
4700 Ramona Boulevard
Monterey Park, California 91754-2169



November 21, 2011

Wendy L. Watanabe, Auditor-Controller
Department of Auditor-Controller
525 Kenneth Hahn Hall of Administration
Los Angeles, California 90012

Dear Ms. Watanabe:

**RESPONSE TO THE PROCUREMENT REVIEW
OF THE SHERIFF'S DEPARTMENT**

Attached is the Los Angeles County Sheriff's Department's (Department) response to the Procurement Review performed by your Audit Division. The Department is in general agreement with the report findings and has implemented or initiated corrective actions to address the findings and recommendations in the report.

Should you have any questions, please contact Mr. Chuck Porter of the eCAPS Internal Audit Unit, Administrative Services Division, at (323) 526-5628.

Sincerely,

A handwritten signature in cursive script, appearing to read "Leroy D. Baca".

LEROY D. BACA
SHERIFF

A Tradition of Service

Ms. Watanabe

-2-

November 11, 2011

LDB:CWP:NV:nv
(Administrative Services Division-eCAPS-Internal Audit Unit)

c: Glen Joe, Director, Fiscal Administration Bureau
Chuck W. Porter, eCAPS-Internal Audit Unit, Administrative Services Division
Chrono

**AUDITOR-CONTROLLER'S PROCUREMENT REVIEW
OF THE SHERIFF'S DEPARTMENT**

RECOMMENDATIONS AND SHERIFF'S DEPARTMENT RESPONSES

GENERAL PURCHASING AND PAYMENT CONTROLS

RECOMMENDATION 1:

Sheriff's management ensure Accounts Payable maintains requisitions/purchases orders, packing slips and invoices with the payment vouchers.

Sheriff Response to Recommendation 1: Agree

With the implementation of eCAPS Procurement in July 2009, the Accounts Payable Unit now maintains hard copies of all Procurement based documents, such as purchase orders, eCAPS receiving documents, and invoices with the payment vouchers. Requisitions (DRF) and the original packing slips are retained by the individual procurement units for their file.

RECOMMENDATION 2:

Sheriff's management ensure staff document that goods/services have been received before paying vendors.

Sheriff Response to Recommendation 2: Agree

Effective July 1, 2009, eCAPS Procurement implementation date, Fiscal Administration issued Fiscal Notice #90 (Decentralized eCAPS Procurement Processing Procedure) which states that "The Unit Receivers must verify delivery of goods and service, complete the receiving document (Packing Slip or Service Receipt Slip) and enter the data into eCAPS." The Unit Receivers are instructed to ensure that the original receiving document is retained in the file for five years for audit purposes.

RECOMMENDATION 3:

Sheriff's management ensure that staff match requisitions/purchase orders, packing slips and invoices before paying vendors and mark invoices "paid".

Sheriff Response to Recommendation 3: Agree

With the implementation of the eCAPS Procurement module, the Department went to a decentralized ordering process allowing each Unit to enter orders directly into eCAPS. After verifying the items and quantities received based on the packing slips and purchase orders, Unit receivers enter the receiving data directly to eCAPS. Once the information is matched in eCAPS, AP processes the IN document to initiate the payment to the vendor.

The AP staff responsible for marking the invoices "Paid" was not careful in adhering to instructions resulting in documents such as the payment vouchers being stamped paid instead of the invoices. The AP staff has been retrained and instructed to stamp each invoice "Paid" instead. Additionally, individual AP staff assigned to each document was instructed to check that the invoices are stamped "paid" before filing away the payment voucher.

RECOMMENDATION 4:

Sheriff's management ensure that staff investigate the exceptions identified and recover overpayments and/or pay the underpayments, if appropriate.

Sheriff Response to Recommendation 4: Agree

The Department investigated the exceptions identified and determined that the correct payment amount was made resulting in no overpayments or underpayments.

NON-AGREEMENT AND AGREEMENT PURCHASES

RECOMMENDATION 5:

Sheriff's management ensure that staff obtains price quotes as required by County purchasing policies.

Sheriff Response to Recommendation 5: Agree

With the modification of the Sheriff's delegated authority, Fiscal Administration Bureau issued Fiscal Notice #93 (Revised Bid Requirements for Non-Agreement Orders) to all departmental units instructing them on the revised bidding requirements. Additionally, the eCAPS procurement module requires solicitation information for all transactions over \$1,500 before it allows you to process an order.

RECOMMENDATION 6:

Sheriff's management ensure that staff only make sole source purchases that meet established criteria and justify sole sources purchases in sufficient detail.

Sheriff Response to Recommendation 6: Agree

The Sheriff's Fiscal Administration Bureau issued Fiscal Notices #95 (Sole Source Purchases and Exempt Items) and #95A (Sole Source for Training Services) on January 14 and October 2010 respectively, to clarify sole source purchase processes and requirements. Sole source purchases up to \$5,000 are departmentally reviewed and approved by the manager of General Accounting, Fiscal Administration prior to placing an order with the vendor. Under this dollar threshold, Units are required to submit a Unit Commander memo and a completed Sole Source Justification form for internal review.

Sole source purchases above \$5,000 require the justification memo from the Unit Commander and a completed Sole Source Justification form submitted along with a requisition directly to the Internal Services Department (ISD).

RECOMMENDATION 7:

Sheriff's management ensure that staff review vendor agreements before ordering items to ensure that items are covered by the agreement and the Department receives the agreement prices.

Sheriff Response to Recommendation 7: Agree

All departmental procurement buyers have attended the eCAPS Procurement trainings and they have been instructed to review and verify that the items being ordered are on the Master Agreement and the agreement prices are inferred in eCAPS. Unit approvers are to verify that the items ordered are from the Master Agreement.

RECOMMENDATION 8:

Sheriff's management ensure staff do not make purchases in excess of the Sheriff's delegated authority.

Sheriff Response to Recommendation 8: Agree

In January 2009, ISD authorized the Sheriff's Department to participate in the County's Increased Delegated Authority Program. Fiscal Notice #87 (Increased Delegated Purchasing Authority) was issued to all the departmental units

informing them that the department's delegated authority is now increased to \$10,000 for non-agreement purchases, including information on ISD requirements in regards to the dollar threshold. This notice states that "Any solicitation for purchases above \$10,000 must be posted on the County's bid website... Any purchase above \$10,000 must be entered as an RQN (requisition) on eCAPS and ISD will complete the solicitation and issue the PO."

The eProcurement training provided to all buyers included a session on the increased delegated authority. Additionally, eCAPS procurement requires the buyer to select the "cited authority" when creating non-agreement purchases. Once the cited authority is selected the system precludes processing orders in excess of the Department's delegated authority.

RECOMMENDATION 9:

Sheriff's management ensure that staff comply with ISD guidelines for bidding and purchasing training services.

Sheriff Response to Recommendation 9: Agree

The Sheriff's Fiscal Administration Bureau issued Fiscal Notice #92 (Training Services-Procuring Guidelines, issued July 15, 2009) to all departmental procurement units which provides bidding, sole source purchase requirements, and processing and payment guidelines. Fiscal Administration will be providing additional trainings for departmental procurement buyers on the County and Sheriff's Procurement policies and procedures to include the ISD guidelines for bidding and purchasing training services.

RECOMMENDATION 10:

Sheriff's management ensure that staff carefully consider and evaluate the terms and conditions of all training contracts before entering into agreements.

Sheriff Response to Recommendation 10: Agree

As stated in Recommendation 9 above, the Fiscal Administration trainings for departmental procurement buyers on the County's and Sheriff's Procurement policies and procedures will also cover the review/evaluation of the terms and conditions of training contracts before entering into agreements.

SERVICE PURCHASE LIMIT

RECOMMENDATION 11:

Sheriff's management develop and implement procedures to track service purchases and obtain Board-approved contracts for services totaling more than \$100,000.

Sheriff Response to Recommendation 11: Agree

Fiscal Administration issued Fiscal Notice #98 (Purchase Orders for Services - \$100,000 Limit, issued July 22, 2010) for all department procurement units. Fiscal Notice #98 provides notification of the service requirements that are projected to exceed the \$100,000 threshold must be processed for Board approval as a service contract. Fiscal Administration's General Accounting Unit has been assigned to track all the service purchases so that they do not exceed the annual amount of \$100,000.

eCAPS SECURITY ACCESS

RECOMMENDATION 12:

Sheriff's management modify current eCAPS access as necessary to eliminate roles that are not in compliance with County and Department policies, and develop procedures to periodically review eCAPS user lists to ensure continued compliance.

Sheriff Response to Recommendation 12: Agree

The Department's eCAPS Security Coordinator now conducts quarterly reviews of security and workflow roles to identify users with multiple and or conflicting roles. Monthly reviews are now performed of the County's CWTAPP's report to identify users that have transferred, retired or are no longer with the Department to remove them from eCAPS access and the potential to perform unauthorized transactions.

REVOLVING FUND BALANCE

RECOMMENDATION 13:

Sheriff's management analyze the activity of each revolving fund, determine the appropriate fund amount, and work with the Auditor-Controller's Audit and Accounting divisions to adjust the fund balances as required.

Sheriff Response to Recommendation 13: Agree

The Department will analyze the related revolving fund assignments to determine the appropriate fund assignment and work with the Department's Internal Audit Unit and the Auditor-Controller's Audit and Accounting divisions to assign the required fund balances.

RECOMMENDATION 14:

Sheriff management ensure that staff deposit all cash receipts and reconcile funds to their assigned amounts.

Sheriff Response to Recommendation 14: Agree

Controls are now in place to ensure that staff deposit all cash receipts and reconcile funds to their assigned amounts.

COMBINED REVOLVING FUNDS

RECOMMENDATION 15:

Sheriff's management close the Sybil Brand RCTF and returns the funds to the Auditor-Controller's Accounting Division.

Sheriff Response to Recommendation 15: Agree

The Department will request the \$10,000 Sybil Brand RCTF be closed.

RECOMMENDATION 16:

Sheriff's management ensure sub-assignments are not established for multiple purposes.

Sheriff Response to Recommendation 16: Agree

The Department has instructed the Unit's as to the proper use of Petty cash fund assignments and the signed Responsibility Statement holds the fund custodian responsible to use the fund assignment for only the intended purpose.

RECOMMENDATION 17:

Sheriff's management ensure revolving funds are only used in emergencies, when prepayment is required, when immediate payment will result in cost savings or where a purchasing advantage can be achieved.

Sheriff Response to Recommendation 17: Agree

The Department will comply with the purchasing rules as established by the Auditor-Controller's CFM and ISD's Procurement policies.

RECOMMENDATION 18:

Sheriff's staff do not make purchases in excess of the Department's delegated revolving fund purchasing authority.

Sheriff Response to Recommendation 18: Agree

The Department will ensure that it stays within its delegated revolving fund purchasing authority.

REVOLVING FUND PURCHASE APPROVALS

RECOMMENDATION 19:

Sheriff's management ensure that staff obtain required approvals before purchases are made and maintain approval documentation in the payment files.

Sheriff Response to Recommendation 19: Agree

Staff have been instructed and trained on the approval level requirement for purchases exceeding \$100 and the need to maintain approval documentation in the Unit's payment file.

FUND RESPONSIBILITY

RECOMMENDATION 20:

Sheriff's management develop procedures requiring all revolving fund custodians to sign an annual Statement of Responsibility, maintain the forms centrally and perform surprise cash counts on a quarterly basis.

Sheriff Response to Recommendation 20: Agree

Fiscal Administrations General Accounting Unit now requires all Revolving Fund custodians to sign a Responsibility Statement annually and conduct a surprise cash count to verify the fund assignment. The Fund Custodian and alternate custodian(s) must sign the Responsibility Statement along with the Unit Commander and forward the original signed statement to General Accounting who maintains it centrally. General Accounting's instructions to the Unit Commander requires quarterly surprise cash counts be performed.

MANAGEMENT OVERSIGHT

RECOMMENDATION 21:

Sheriff's management increase the level of management oversight over revolving fund purchases, internal controls and recordkeeping.

Sheriff Response to Recommendation 21: Agree

The Department has increased management oversight over revolving fund purchases, internal controls and recordkeeping. Training is provided as part of the Internal Control Certification Program and identified weaknesses addressed along with a plan of corrective action.

RECOMMENDATION 22:

Sheriff's management provide training on County revolving fund policies and procedures where necessary and monitor for compliance.

Sheriff Response to Recommendation 22: Agree

The Department conducts training on revolving fund policies and procedures when monitoring of revolving fund activity indicates compliance is required.

PHARMACY OPERATIONS INVENTORY RECORDKEEPING AND CONTROLS

RECOMMENDATION 23:

Sheriff's management evaluate implementing a perpetual inventory system for non-narcotic medications.

Sheriff Response to Recommendation 23: Agree

The Department is currently looking into a perpetual inventory system through the current vendor that provides Electronic Medical Record (EMR). Eventual Implementation of such a system will be determined based on costs and availability.

RECOMMENDATION 24:

If the Sheriff's decides not to implement a perpetual inventory system, the Department develops alternative inventory procedures for non-narcotics, including a mechanism to account for returns and disposals.

Sheriff Response to Recommendation 24: Agree

The Sheriff's Department will move in the direction of implementing a perpetual inventory system.

REQUISITION APPROVALS

RECOMMENDATION 25:

Sheriff's Pharmacy management ensure that staff prepare and managers approve requisitions before purchases are made, and keep copies of approved requisitions.

Sheriff Response to Recommendation 25: Agree

With the implementation of eCAPS, Sheriff's Pharmacy completes the required hard copy Sheriff's Department Internal Requisition (DRF). This DRF is then reviewed and approved by a supervisor prior to entry into eCAPS and before any order is placed with the vendor. A copy of this document is attached to each electronic document in the eCAPS System, and a hard copy is kept in the file per the required five (5) year retention period.

GIFT CARDS CONTROLS

RECOMMENDATION 26:

Sheriff's management ensure the functions of receiving, recording and distributing gift cards are adequately separated.

Sheriff Response to Recommendation 26: Agree

The Department has instituted controls to separate the functions of receiving, recording and distributing of gift cards.

RECOMMENDATION 27:

Sheriff's management ensure that General Accounting Section staff sign and date gift card inventory reconciliations to document their review.

Sheriff Response to Recommendation 27: Agree

General Accounting Section staff has been instructed to sign and date gift card inventory reconciliations to document their review.